

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the May 6, 1998
Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: June 3, 1998

INFORMATION: _____

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee Meeting held in open session May 6, 1998 are submitted on the following pages.

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
STATE TEACHERS' RETIREMENT SYSTEM
MAY 6, 1998
OPEN SESSION
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
Yvonne Gallegos Bodle
George Fenimore
Marty Mathiesen
Michael Mayer
Lillian Raffel
Emma Zink
Fred Buenrostro, representing State Controller
Kathleen Connell
Richard Whitmore, representing Superintendent
of Public Instruction, Delaine Eastin
Christine Drevalas, representing State Treasurer
Matthew Fong
Robin Dezember, representing State Director
of Finance, Craig Brown

ALSO PRESENT

James Mosman, Chief Executive Officer
Patrick Mitchell, Chief Investment Officer
Elleen Okada, Director of Investment Admin. And External Relations
Ian Lanoff, Fiduciary Counsel
Chris Waddell, Chief Counsel
Doug Wills, Staff Counsel
Mitch Pleis, Director of Real Estate
Michelle Cunningham, Director of Fixed Income
Steven Tong, Director of Internal Equities
Real Desrochers, Director of Alternative Investments
Richard Rose, Investment Officer
Dan Bryant, Investment Officer
Trish Taniguchi, Investment Officer
Allan Emkin, Pension Consulting Alliance
Terri Sander, Pension Consulting Alliance
Doug Le Bon, Pathway Capital Management
Al Clerc, Pathway Capital Management
Jim Reinhardt, Pathway Capital Management
Mary Ann Avansino, Executive Assistant

A quorum being present, Chairperson Lynes called the open session meeting to order at 9:30 a.m.

- I. **ANNOUNCEMENTS** (Item 2)
There were no announcements.

- II. **APPROVAL OF MINUTES OF APRIL 1, 1998 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)
MOTION duly made by Mr. Mathiesen, seconded by Ms. Zink and carried to approve the minutes of the April 1, 1998 Investment Committee, Open Session as presented.

Mr. Buenrostro arrived at the meeting at 9:35 a.m.

- III. **ALTERNATIVE INVESTMENTS - ROLE OF ALTERNATIVE INVESTMENTS** (Item 4)
Mr. Desrochers and Ms. Taniguchi provided a review of the characteristics of alternative investments, alternative investments in the global marketplace, industry returns and STRS' portfolio.

Mr. Whitmore arrived at the meeting at 9:50 a.m.

Messrs. Le Bon, Clerc and Reinhardt discussed expected returns of alternative investments, methods of investing, trends in alternative investments and STRS' target ranges.

Messrs. Mitchell, Desrochers and Le Bon reviewed consultant and staff recommendations. Discussion ensued.

Chairperson Lynes recessed the meeting at 10:55 a.m.
The meeting reconvened at 11:05 a.m.

- IV. **ANNOUNCEMENTS** (Item 2)
Chairperson Lynes read into the record a resolution expressing appreciation of the diligence and dedication of Natalya Smith de Gonzales and acknowledging her contribution to the California State Teachers' Retirement Board during the time she served as representative for State Treasurer Matthew Fong.

MOTION duly made by Mr. Fenimore, seconded by Mr. Buenrostro and carried to adopt the resolution, read into the record by Chairperson Lynes, recognizing Natalya Smith de Gonzales. The motion carried unanimously.

Chairperson Lynes recessed the meeting at 11:10 a.m.
The meeting reconvened at 11:25 a.m.

- V. **ALTERNATIVE INVESTMENTS - ROLE OF ALTERNATIVE INVESTMENTS** (Item 4)
Discussion continued regarding the proposed policies and procedures for alternative investments.

Mr. Emkin stated for the record that he concurred with the recommendations of Staff and Pathway Capital Management.

MOTION duly made by Ms. Zink, seconded by Mr. Fenimore and carried to adopt Staff and Consultant recommendation that the primary role of alternative investments within the STRS portfolio is to provide enhanced

returns over those available with public equity market investments. The motion carried.

Pending revisions suggested by the Committee, approval of the policy and procedures manual will be deferred to the June Investment Committee meeting.

VI. **EQUITY - STRUCTURE OF NON - U. S. EQUITY** (Item 5)

Ms. Okada and Mr. Bryant discussed the mandates to be used within the non - U.S. equity portfolio, active and passive management levels and an implementation plan.

MOTION duly made by Ms. Zink, seconded by Mr. Mathiesen and carried to approve recommendation proposed by Staff and Pension Consulting Alliance as follows: 1) The MSCI EAFE Index should continue to be the benchmark for the non - U.S. equity portfolio. This includes regional indicies for regional mandates. 2) Modify the strategic asset allocation target to 50% active management and 50% passive management for the non - U.S. equity portfolio. The strategic allocation target would have a range from 45% to 55%. 3) The actively managed allocation will consist of EAFE and regional (European and Pacific basin) mandates. The strategic allocation target for the regional mandates will be the EAFE weightings with a range of +/-5% for each region. A roll call vote was taken. Messrs. Fenimore, Mathiesen, Mayer, Whitmore, Dezember, Ms. Zink, Raffel, and Drevalas voted yes. Mr. Buenrostro voted no. Ms. Bodle abstained. The motion carried.

Mr. Buenrostro stated for the record that he voted against the motion because it is the opinion of the Controller's office that active management is less efficient than passive.

VII. **REAL ESTATE - PERFORMANCE FEE FOR AMB** (Item 6)

Mr. Pleis presented a revised invoice for the performance fee for AMB Realty Advisors. Staff and Pension Consulting Alliance have reviewed the fee and recommend payment.

MOTION duly made by Mr. Mathiesen, seconded by Ms. Zink and carried to adopt the resolution to authorize payment of the an incentive fee of \$4,500,000 to AMB Realty Advisors. Messrs. Buenrostro and Whitmore abstained.

Chairperson Lynes recessed the meeting at 12:30 p.m.

The meeting reconvened at 1:20 p.m.

Ms. Bodle did not return to the meeting.

VIII. **REAL ESTATE - POLICIES AND PROCEDURE** (Item 7)

Mr. Pleis and Ms. Sander presented the proposed policies and procedures for real estate. Discussion ensued.

Pending revisions suggested by the Committee, approval of the policy and procedures manual will be deferred to the June Investment Committee meeting.

IX. **LEGISLATION** (Item 8)

Mr. Mitchell presented the written staff analysis of AB-1744 (Knox, Honda, Perata) and SB-1433 (Hayden). Mr. Mitchell also presented the third party analysis commissioned by STRS which was a tobacco divestiture study prepared by BARRA RogerCasey. Discussion ensued.

MOTION duly made by Ms. Zink, seconded by Mr. Fenimore to adopt an oppose position to AB-1744 (Knox, Honda, Perata) and SB-1433 (Hayden) as recommended by Staff. A roll call vote was taken. Messrs. Fenimore, Mathiesen, Mayer, Whitmore, Dezember, Mss. Zink, and Drevalas voted yes. Ms. Raffel and Mr. Buenrostro abstained. The motion carried.

MOTION duly made by Ms. Raffel, seconded by Ms. Zink and carried to adopt an oppose position to AB-2357 (Olberg) as recommended by Staff.

- X. **INVESTMENT OBJECTIVES - UPDATE ON TIMELINE** (Item 9)
Mr. Mitchell presented the updated timeline. He reported that changes to the member home loan program will be considered following the outcome of pending legislation which would allow new options to the program.
- XI. **INVESTMENT EXPENDITURES AND OTHER INCOME - QUARTERLY UPDATE** (Item 10)
Ms. Okada presented the quarterly report. All items were within budget.
- XII. **CREDIT ENHANCEMENT - SCHOOL BOND ENHANCEMENT** (Item 11)
Mr. Rose reported that the legal review from Orrick, Herrington & Sutcliffe had not yet been received. Mr. Waddell stated that Orrick, Herrington & Sutcliffe had been informed that the legal review was needed for distribution to the Committee prior to the June meeting.
- XIII. **CREDIT ENHANCEMENT - ACTIVITY STATUS REPORT** (Item 12)
Mr. Rose presented the written report.
- XIV. **REAL ESTATE - ACTIVITY STATUS REPORT** (Item 13)
Mr. Pleis presented the written report.
- XV. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 14)
Mr. Desrochers presented updates to the written report. Mr. Desrochers reported that First Reserve VIII documents have been signed and that following negotiation, the previously approved investment in GCTR VI would not take place.
- XVI. **STATUS OF FIDUCIARY COUNSEL** (Item 15)
Mr. Waddell reported that the issue of the future role of fiduciary counsel will be reviewed at the July planning meeting.
- XVII. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 16)
Mr. Mitchell presented the written report and presented updates. He reported that 141 responses had been received for the Domestic Equity RPF. Interviews for the Enhanced Index style will be held on June 4th.
- XVIII. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 17)
There were no statements from the public.
- XIX. **MOVE TO CLOSED SESSION**
Chairperson Lynes moved the meeting directly to closed session at 2:45 p.m.
- XX. **ADJOURNMENT**
Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to litigation and investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 4:15 p.m.

James D. Mosman, Chief Executive Officer and Secretary to the
Teachers' Retirement Board

Gary Lynes, Chairperson